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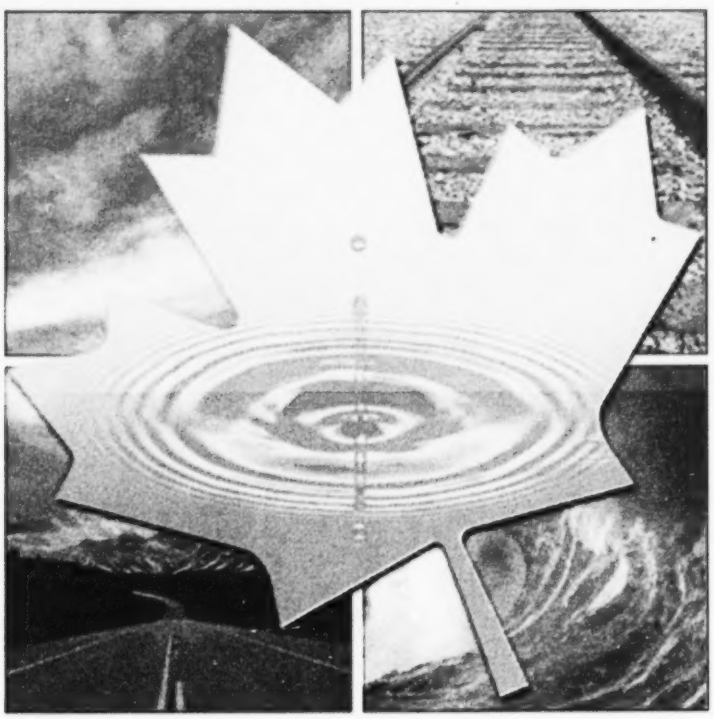

Final Audit Report - Port Divestiture Fund Program

1577-03-020
May 5, 2004

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EXECUTIVE SUMMARY 1

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EXECUTIVE SUMMARY

As part of its *National Marine Policy*, announced in 1995, Transport Canada (TC) took on the initiative to divest all of its regional/local ports to other interests. To achieve this objective, the Port Divestiture Program was established with a $125-million six-year funding envelope, funded by Transport Canada – the Port Divestiture Fund (PDF). An additional $50 million of fiscal framework funding was granted with the three-year program extension until March 2006. Since its implementation, more than 446 of the 549 public ports across Canada have been transferred, demolished, or had their public harbour status terminated. As part of its port divestiture strategy, TC entered into a series of contribution and/or operating agreements with several new port owners. These contributions were to be used for operational and maintenance costs of these port facilities.

Audit and Advisory Services and PricewaterhouseCoopers LLP conducted this audit jointly in the fall of 2003. The objective of this audit was to ensure due diligence and sound management of, control over, and accountability of the PDF program. The Audit and Review Committee (ARC) approved this audit as part of the 2003/04 Annual Audit Plan.

The auditors examined the control framework put in place by Port Divestiture and Operations (AHPB) to manage existing contribution agreements with port administrations. The audit activities took place both in Ottawa and in the Pacific, Atlantic and Ontario Regions.

Overall, AHPB and Regions met the audit criteria designed to measure the audit objectives of due diligence and sound management and control and accountability over the PDF program. The following findings were noted:

- Risk assessments conducted in Regions are not always documented;
- Inconsistent use of comprehensive and limited scope audits and other monitoring activities among Regions;
- Documentation prepared by AHPB for divesting ports lacks monitoring tools and guidance;
- Lack of standard monitoring information from Regions to AHPB;
- Lack of formal reporting to Parliament on monitoring activities by AHPB;

It is recommended that Regions:

- Conduct a formal risk assessment of divested ports with contribution agreements to determine the appropriate level and type of monitoring / auditing activities required in each case.

AHPB should:

- Provide Regions with a complete, documented monitoring framework and include it in its *Guidelines and Directives for Port Divestiture*.
- Set a standard for all Regions to provide monitoring performance information on a regular basis; and
- Report program results using indicators as identified in the results-based management and accountability framework (RMAF) for the Port Divestiture Program;

Management Response

AHPB will be amending the *Guidelines and Directives on Port Divestiture* over the next fiscal year to address post-divestiture monitoring activities. AHPB will let the use of the Port Divestiture Monitoring System (PMDS) optional to Regions. AHPB will continue to produce the annual report to Parliament on the status of public port divestiture and will include a section on monitoring activities.

Atlantic Region

The Atlantic Region will continue to document risk assessments and tie them to the annual audit plan and to use PMDS to document activities under the PDF program.

Pacific Region

Risk assessments are conducted and documented in the Pacific Region. Reassessment occurs at least once each fiscal year. Training will be undertaken at the earliest opportunity.

Ontario Region

The Region has no concerns with the audit findings, with the exception of the observation and associated recommendation identified in section 3.2.2 – Differences in Monitoring and Auditing Activities – All Regional Offices.

The Region monitors and reviews the annual audited verifications that all contribution agreement recipients are required to provide. Subsequent to these reviews, a determination is made on the requirement and timing of a comprehensive audit.

Audit and Review Committee Decision

The audit report and the Management Action Plan (MAP) were presented to the Audit and Review Committee on May 5, 2004. The Committee approved the audit report and the MAP as presented.

TRANSPORT CANADA
AUDIT OF THE PORT DIVESTITURE FUND PROGRAM

Summary of Audit Findings
For the Period from April 1, 2000 to March 31, 2003

May 2004

TRANSPORT CANADA
Audit of the Port Divestiture Fund Program
Summary of Audit Findings for the Period April 1, 2000 to March 31, 2003

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1. Introduction

1.1 Mandate

PricewaterhouseCoopers LLP (PwC) has been requested by the Audit and Advisory Services of Transport Canada to provide professional services for an audit of the Port Divestiture Fund Program.

As stated in the Statement of Work received from Transport Canada dated September 8, 2003, the objectives of the audit were to:

a) Ensure due diligence and sound management of the Port Divestiture Fund Program;
b) Ensure control over the Port Divestiture Fund Program; and,
c) Ensure accountability over the Port Divestiture Fund Program.

The audit covered contribution agreements from April 1, 2000, to March 31, 2003.

1.2 Background to the Port Divestiture Fund Program

The National Marine Policy, announced on December 14, 1995, outlines the Government of Canada's plan to rationalize the Canadian marine transportation system. One initiative within this policy framework is the Port Divestiture Program. As of March 31, 2003, 446 of the 549 public ports and public facilities originally operated by Transport Canada had been transferred, demolished or had their public harbour status terminated.

On April 18, 1996, the Minister of Transport received Treasury Board approval of the terms and conditions governing the Port Divestiture Program, including the authority to establish a Port Divestiture Fund. The $125 million six-year Port Divestiture Program originally funded by TC and scheduled to run until March 31, 2002, was granted a one-year extension to March 31, 2003, and subsequently, a further three-year extension to March 31, 2006, with funding of $50 million.

The Port Divestiture Program follows a land and chattels transfer strategy to ensure that:

- No offer that leaves the Crown financially worse off as a result of divestiture will be accepted;
- The Crown receives best value for port land and other assets;
- A new port owner will not enjoy any windfalls profits from the subsequent sale of lands, assets and/or chattels; and
- Transport Canada fully upholds its fiduciary responsibility with respect to First Nations.

The Fund is being used for purposes such as:

- Providing assistance in bringing existing port property up to a minimum safety or operational standard;
- Covering a portion of costs incurred by the transferee in complying with regulatory or insurance requirements, such as environmental issues;
- Feasibility studies;
- Financial assistance for legal fees directly related to negotiations for the transfer of the port; and
- Acquiring property if assets are encroaching on another property.

Upon divesting, analysis and studies in some instance will identify the need for financial support to the new port owner. When this happens, a contribution agreement is negotiated to provide the port administration with funding for maintenance and/or operation of the port.

From a local community perspective, public port divestiture allows such communities to own their local facilities, control the use of these facilities, set their own tariff structures (if any), and determine the levels of service and maintenance appropriate to local circumstances. From Transport Canada's viewpoint, the process described above will allow the department to meet its objective of withdrawing from the direct operation of regional/local ports nationwide.

Management and monitoring of the contribution funding is the responsibility of Transport Canada's regional administrations.

As requested by the Treasury Board policy on transfer payment programs, program managers are responsible to establish an adequate control framework to ensure compliance with terms and conditions of agreements. This audit intended to provide assurance to senior management at Transport Canada of due diligence of this program.

1.3 Audit Strategy

In order to assess the three audit objectives defined by Audit and Advisory Services, the following criteria were reviewed during the audit:

1. An effective control framework is in place and is being applied by program managers to monitor contribution agreements with port authorities.
   a. This control framework exists in writing and is applied consistently in all regional offices.
   b. The control framework has provision for assessing risk in order to determine monitoring required, including an annual recipient audit plan.
2. Program management have all the necessary resources, financial, human, and material, to ensure the program meets its objectives.

3. Amounts paid out in contributions correspond to amounts negotiated and agreed upon by concerned parties and that all exceptions are justified and documented.
4. The terms and conditions of the contribution agreements are in line with Treasury Board policy on transfer payment programs and recipients have complied with these terms.
5. Program management is satisfied that program objectives are being met and that information provided to them by port operators on results achieved are accurate.

Three regional offices were visited for the purpose of the audit:

1. Atlantic Regional Office in Dartmouth, Nova Scotia,
2. Pacific Regional Office in Vancouver, British Columbia, and
3. Ontario Regional Office in Toronto, Ontario.

1.4 Methodology

The audit was conducted using the following methodology:

- Preliminary meeting with stakeholders;
- Interviews with staff members in the regional offices;
- Examination of relevant documentation, including a selected sample of project files in the regional offices; and
- Analysis of the management control framework in place in each region selected.

2. Summary of Audit Findings

Overall, the audit criteria designed to measure the audit objectives of due diligence and sound management and control and accountability over the Port Divestiture Fund Program were met. Accordingly, the management control and accountability framework is adequately maintained and recorded for the Port Divestiture Fund Program. Appendix A shows the files that were selected to test the audit objectives on a sample basis.

Arising from the audit work are the following observations and findings for consideration by Transport Canada:

2.1 Objective 1 – Due Diligence and Sound Management of the Program

2.1.1 Documentation of Risk Assessments – All Regional Offices

(i) Observation

The risk assessment is based on criteria proposed by the Director General, Port Programs and Divestiture, in April 2002. The risk assessment is performed through ongoing verbal discussions in regional administrations and with Port Divestiture and Operations (AHPB). Decisions as to the type of monitoring and audit to be adopted derive from these discussions. However, the process is conducted orally and no written records exist to back up the regional annual audit plans. AHPB produced a guideline in a Risk-Based Audit Framework (RBAF) completed in April 2003 as part of the TB submission 3-year extension. This guideline will strengthen the risk management of the program.

(ii) Recommendation

Although the risk assessments are performed by the regions, in order to ensure due diligence of the program, the results of the risk assessment should be documented to support the approach taken on respective contribution agreement as part of the preparation of the annual audit plan.

(iii) Management Response and Action Plan:

Pacific Region:
Risk assessments are conducted and documented in Pacific Region. Reassessment occurs at least once each fiscal year.

Atlantic Region:
Atlantic Region will continue to ensure that risk assessments are documented and tied to the annual audit plan.

2.1.2 Consistent Approach to Monitoring and Divestiture Responsibilities – All Regional Offices

(i) Observation

Regional program management have varying structures to manage the PDF program, as this is a decentralized program. Regional offices have a certain level of autonomy with regards to managing this program.

In the Atlantic region, Harbours and Ports Operations perform the monitoring activities. This is the same branch responsible for the divestiture operations; however, duties for pre- and post-divestiture operations are divided between two individuals.

In the Pacific region, the Property and Divestiture Group perform the monitoring activities, which is the same group responsible for divestiture operations. The individuals responsible for divestiture operations also perform monitoring activities. The Property and Divestiture Group does not perform limited procedures or desk reviews, which would require substantial time and a different skill set. Instead they monitor the receipt of annual verification statements and completion of comprehensive audits.

In the Ontario region, the Funded Programs and Administration Group perform monitoring activities. Programs and Divestiture perform divestiture activities. The Acting Regional Director for Programs and Divestiture oversees the monitoring activities.

Overall, it would be preferable to have a consistent approach throughout the regional offices; however, the approach by each region is based on their staffing resources most practical for the locations. Currently, the section with the most internal resources and knowledge of the agreements performs the monitoring activities for the Regions.

Finally, all program managers in the Atlantic and Ontario regional offices attended the training for the management of transfer payments provided by either the department or TBS.

(ii) Recommendation

Port Program managers in the Pacific Region should take the departmental training on management of transfer payments, either via computer-based training or with TDC courses.

(iii) Management Response and Action Plan

Training will be undertaken at the earliest opportunity.

2.2 Objective 2 – Control over the Program

2.2.1 Funding of the Monitoring Activities – All Regional Offices

(i) Observation

Resources to conduct post-transfer audits and other monitoring activities come from regional operating budget. Additional funding is available from AHPB to regional administrations, should they identify a need for it.

Monitoring activities differ between regional offices and this may impact the need for funding. The Atlantic and Ontario regions performed a combination of desk reviews and contracting-out of comprehensive audits while the Pacific region performed solely comprehensive audits contracted-out to consultants. The Pacific region also has a larger number of divested ports than the Atlantic and Ontario regions. Regions identify their funding needs in their annual audit plan, which they submit to AHPB.

2.2.2 Differences in Monitoring and Auditing Activities – All Regional Offices

(i) Observation

Regional program management have varying approaches in terms of monitoring and/or auditing activities. This is due to the fact that the PDF program is decentralized to Regions, who are accountable for the management of this program. Monitoring activities vary from desk reviews to outsourced comprehensive audits of port operators. The Pacific Region conducts comprehensive audits of all divested ports; this decision was based on limited in-house resources.

In the Ontario Region, where monitoring activities are performed in conjunction with comprehensive audits, only two contribution agreements have been audited so far. Ontario Region plans to have approximately two-thirds of the contribution agreements audited by the end of 2006-2007. As a result of this plan, of the nine (9) Operating Agreements in question, two (2) would end up being audited after their expiring dates. However, annual verifications have been received for these two (2) agreements.

In the Atlantic region, approximately half of the contribution agreements were audited by outside consultants while the remaining agreements were submitted to a desk review in accordance with their risk assessment. The Atlantic region will have completed its comprehensive audits by the end of fiscal year 2003-2004, which is three years earlier than the Pacific and Ontario regional offices.

AHPB is responsible for providing Regions with a monitoring framework for new port owners that received funding from TC. In May 2003, AHPB has developed a Risk-Based Audit Framework (RBAF) and a Result-Based Management and

Accountability Framework (RMAF) to provide a control framework for monitoring contributions and a mechanism to report on results achieved, as part of the TB submission for a three-year extension of this program. The RBAF provides a detailed risk assessment strategy and general guideline as to what monitoring should be done by Regions with divested ports. The RMAF identifies the type of monitoring activities and outputs that should ensure the achievement of programs objectives, such as recipient audits, follow-up and quality assurance. As well, AHPB designed monitoring tools for Regions to help them with the conduct of recipient audits. However, there are no tools or standards available for other types of monitoring activities, such as project files checklist. As well, these tools are not included in the *Guidelines and Directives for Port Divestiture*. A comprehensive monitoring framework inserted in the *Guidelines* would provide consistency and standard monitoring practices throughout the Regions.

It is to be noted that some Regions also developed in-house audit and/or monitoring tools. For example, the Atlantic Region developed its own templates for every type of post-divestiture monitoring activities, including audit reporting and desktop reviews. It has also developed a comprehensive monitoring cycle, and participated actively in the drafting of detailed port monitoring guidelines.

(ii) Recommendation

In order to ensure a more consistent approach to the management controls of the Program, and in light of the results of comprehensive audits performed, it is recommended that the regional offices re-assess their risk assessment to confirm the proper level of monitoring required for each agreement, as detailed in the RBAF.

Regions should perform comprehensive audits over the majority of contribution agreements assessed to be medium- and high-risk, in accordance with regional risk assessments, while comprehensive audits might not represent the most efficient monitoring activity over lower-risk contribution agreements.

AHPB should complete its monitoring framework by providing Regions with monitoring tools, other than for recipient audits, such as project files checklist and include this framework in its *Guidelines and Directives for Port Divestiture* to provide such criteria to Regions, thus enhancing standardization of monitoring practices.

The Ontario regional program management should move forward its schedule for planned comprehensive audits and monitoring activities. Conducting the comprehensive audits earlier would permit adequate time for corrective action to be taken, if required, before Operating Agreements with Port Operators expire.

(iii) Management Response and Action Plan

AHPB:

AHPB will be amending the *Guidelines and Directives on Port Divestiture* over the next fiscal year to address, among other things, post-divestiture monitoring activities. At the time, the appropriate documents will be incorporated.

Ontario Region:
The Region monitors and reviews the annual audited verifications that all contribution agreement recipients are required to provide. Subsequent to these reviews, a determination is made on the requirement and timing of a comprehensive audit.

Pacific Region:
Risk assessments will be re-assessed as recommended.

Atlantic Region:
The Atlantic Region will continue to assess the risk associated with the different levels of audits completed;

Given the level of auditing expertise in the regional office and the complexity of the majority of Contribution Agreements, the region will continue to favour comprehensive audits completed by private contractors.

2.3 Objective 3 – Accountability over the Program

2.3.1 Differences in Documentation of Monitoring Activities – All Regional Offices

(i) Observation

Each regional office has developed its own documentation system to keep track of annual verification statements received, audits tasks, operating periods and property transaction periods monitoring. Information gathered from these different systems vary from one Region to another. From a national perspective, this variance in practice increases the risk for inconsistent control and accountability over the contribution agreements for divested ports. A summary of monitoring performance is required to provide AHPB with up-to-date information on monitoring and to increase stewardship over the program.

A database system, called the Port Monitoring Database System (PMDS) has been developed in the Atlantic Region to, among other functions, centralize and formalize documentation of monitoring activities performed. Information documented in the database would be accessible by Port Divestiture and Operations in Ottawa. As of the time of the audit, training had started for other regional offices on the PMDS. The Atlantic Region has initialized the database retroactively with all the post-divestiture monitoring information gathered by Harbours and Ports, thus making this

information readily available to Port Divestiture and Operations in Ottawa. At this point, utilization by Regions of this database system is still optional.

(ii) Recommendation

AHPB should set a standard for all Regions to provide monitoring performance information on a regular basis. The PMDS could be this standard.

(iii) Management Response and Action Plan:

AHPB:
While we do understand the importance of post-divestiture monitoring, because of the Regions' resource issues, their primary focus has been on divesting the remaining public ports before the end of the program.

Taking into account that the program is in its final years, the Regions have already implemented their own successful post-divestiture monitoring activities. For this reason, AHPB has left the use of PMDS as optional.

Atlantic Region:
Atlantic Region will continue to utilize the Port Divestiture Monitoring System to document activities under the Port Divestiture Fund Program.

2.3.2 Reporting of Monitoring Activities – Headquarters and All Regional Offices

(i) Observation

The Annual Report on Port Divestiture and Operations does not presently include all the necessary information on monitoring activities performed during the fiscal year, but includes detailed information on the status of the divestiture process. The Minister of Transport submits this Annual Report to Parliament.

As contributions are disbursed to the port operators without prior submission of supporting documentation, the monitoring activities performed by the Port Divestiture and Operations branch and the regional offices represent a key measure of accountability to Parliament and the general public.

(ii) Recommendation

To expand on the present reporting activities of the Port Divestiture Fund Program, it is recommended that key indicators be included in the Annual Report submitted to Parliament. Port Divestiture and Operations in Ottawa would be responsible for the centralization of information from the regional offices. The Results-Based Management and Accountability Framework for the Port Divestiture Program identify specific indicators that should be reported. The indicators should protect

confidential information about contribution agreements and port operators and should include such items as the:

- Number of audits performed during the fiscal year by region; and
- Number of compliant annual verification statement received during the fiscal year by region;

(iii) Management Response and Action Plan:

AHPB:
Pursuant to a provision in the *Canada Marine Act*, AHP was required to submit an annual report to Parliament on the status of public port divestiture and operations for four years following proclamation of the Act. This requirement has now been fulfilled, however, AHPB plans to continue to produce this report which will continue to be signed by the Minister, and make it available on TC's website. The Annual report will include a section to generally address post-divestiture monitoring activities, and will identify those items used to conduct monitoring activities, such as the annual verification statements and audits.

Appendix A
Contribution Agreements examined in the course of this audit

1. Atlantic Region

Iona (A673-131Q)	$255,000			
131P Hantsport	$220,000			
131M Pictou Pier B	$29,400			
113W Walton/East Hants	$70,000			
Annapolis Royal		$125,000		
Tiverton		$400,000		
Parrsboro		$761,998		
Yarmouth		$4,800,000		
Total Agreements examined	**$574,400**	**$6,086,998**	**$0**	**$6,661,398**

Appendix A
Contribution Agreements examined in the course of this audit

1. Atlantic Region

Transfer Agreement	2000-2001	2001-2002	2002-2003	Total
Iona (A6754-3103)	$288,000			
CHP Hantsport	$230,000			
CHM Pictou Pier B	$56,400			
CHW Wallace East	$70,000			
Hants				
Annapolis-Regal		$1,200,000		
Overton		$400,000		
Parrsboro		$276,398		
Yarmouth		$1,210,600		
Total Agreements Examined	$574,400	$6,086,998	$0	$6,661,398

2. Ontario Region

Collingwood	$275,000			
Kingston – Crawford Dock	$100,000			
Selkirk		$716,000		
Kenora		$1,500,000		
Total Agreements examined	**$375,000**	**$2,216,000**	**$0**	**$2,591,000**

3. Pacific Region

Powell River (KG-P-150-53AR)	$626,805			
5343 Port Hardy	$735,000			
5353 Alert Bay	$634,922			
5357 Capital Regional District – Sturdies Bay	$700,000			
Belleville Street		$1,500,000		
Savary		$550,000		
Masset		$650,000		
Sidney		$4,500,000		
Stewart		$571,000		
Seymour Arm				
Kelsey Bay				
Coal Harbour			$580,000	
Victoria, Erie/Huron			$1,966,000	
Victoria, Government Street			$1,967,000	
Victoria, Wharf Street			$966,000	
Victoria, Ogden Point			$6,966,250	
Total Agreements examined	**$2,696,727**	**$7,771,000**	**$12,145,250**	**$22,912,977**